

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of East Grand Rapids	County Kent
Fiscal Year End June 30, 2006	Opinion Date September 1, 2006	Date Audit Report Submitted to State September 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	No other reports necessary.		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100		
Street Address 2330 E. Paris Avenue, P.O. Box 6547		City Grand Rapids	State MI	Zip 49516
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



CITY OF EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

CITY OF EAST GRAND RAPIDS

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	18
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Street Fund	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22-23
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	24
Notes to Financial Statements	25-41
Combining and Individual Fund Statements and Schedules:	
General Fund:	
Detail Schedule of Revenues and Expenditures - Budget and Actual	42-46
Nonmajor Governmental Funds:	
Combining Balance Sheet	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	48
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Local Street Fund	49
Internal Service Funds:	
Combining Statement of Net Assets	50
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	51
Combining Statement of Cash Flows	52

(continued)

CITY OF EAST GRAND RAPIDS

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
Schedule of Indebtedness	53-54
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

September 1, 2006

Honorable Mayor and Members of
the City Council
City of East Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of East Grand Rapids, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of East Grand Rapids, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and major streets fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, on our consideration of the City of East Grand Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The objective of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Grand Rapids' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of East Grand Rapids' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of East Grand Rapids' financial performance provides an overview of the City's financial activities for the year ended June 30, 2006. Please read it in conjunction with the City's financial statements which begin on page 11. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The City's net assets increased \$1,616,802 (or 6.6%). The governmental net assets increased by \$1,415,258 (or 8.9 %) and the business-type net assets increased by \$201,544 (or 2.4 %).
- Total expenses of all of the City's programs were \$12,239,825, a decrease of \$7,444 (or 0.1%). The governmental expenses decreased by \$161,169 (or 1.6%) and the business-type expenses increased by \$153,725 (or 6.8%).
- Total revenues, including all program and general revenues were \$13,856,627, an increase of \$1,295,192 (or 10.3%). The governmental revenues increased by \$1,226,407 (or 12.2%) and the business-type revenues increased by \$68,785 (or 2.7%). The large increase in governmental revenues is due to the donations listed below.
- The City received \$270,400 in donations for the Wealthy Street Streetscape project.
- The City received \$63,660 in donations towards Phase II of the Reeds Lake Bike Trail.
- The City received \$569,861 in donations for the completion of the Municipal Complex.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 -13) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the City's net assets and changes in them. The reader can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the public safety, general administration, parks and recreation and streets. Property taxes and State Shared Revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's water and sewer system is reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 8. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission has established several other funds to help it control and manage money for particular purposes. The City's two types of funds, governmental and proprietary, use different accounting approaches.

- **Governmental Funds** – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- **Proprietary Funds** – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds, such as the City’s Equipment Revolving Fund and the Health Care Fund (the other component of proprietary funds) to report activities that provide supplies and services to the City’s other programs and activities.

THE CITY AS A WHOLE

The City’s combined net assets changed from a year ago, increasing from \$24,310,198 to \$25,927,000. Our analysis focuses on the net assets and changes in net assets of the City’s governmental and business-type activities.

Table 1
Net Assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 9,016	\$16,766	\$2,097	\$1,682	\$11,113	\$18,448
Capital assets	24,270	14,213	7,736	8,094	32,006	22,307
Total assets	33,286	30,979	9,833	9,776	43,119	40,755
Long-term debt outstanding	13,459	13,428	895	978	14,354	14,406
Other liabilities	2,502	1,641	336	434	2,838	2,075
Total liabilities	15,961	15,069	1,231	1,412	17,192	16,481
Net assets:						
Invested in capital assets net of related debt	11,033	10,626	6,149	7,116	17,238	17,742
Restricted	2,170	1,473	-	-	2,114	1,473
Unrestricted	4,122	3,811	2,453	1,248	6,575	5,059
Total net assets	\$17,325	\$15,910	\$8,602	\$8,364	\$25,927	\$24,274

Net assets of the City's governmental activities increased by 8.9 percent (\$17,324,566 compared to \$15,909,308). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased \$310,452. Restricted net assets, those restricted mainly for capital projects and special purposes such as street cleaning or maintenance increased by \$642,108.

The net assets of our business-type activities increased by 2.4 percent (\$8,602,434 compared to \$8,400,890).

Table 2**Changes in Net Assets (in thousands) as of June 30, follows:**

	Governmental Activities		Business-type Activities		Total Primary	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 1,152	\$ 1,012	\$2,574	\$2,589	\$ 3,726	\$ 3,601
Operating grants and contributions	781	775	-	-	781	775
Capital grants and contributions	841	97	-	-	841	97
General revenues:						
Property taxes	6,785	6,471	-	-	6,785	6,471
Property taxes for debt service						
State shared	969	976	-	-	969	976
Interest	438	241	57	17	495	258
Local sources	215	268	-	-	215	268
Miscellaneous	38	110	6	3	44	113
Transfers	35	76	(35)	(76)	-	-
Total revenues	11,254	10,026	2,602	2,533	13,856	12,559
Expenses						
Governmental activities:						
General government	1,730	1,708	-	-	1,730	1,708
Public safety	3,706	3,379	-	-	3,706	3,379
Public works	2,341	3,007	-	-	2,341	3,007
Recreation and culture	1,307	1,243	-	-	1,307	1,243
Other functions	173	192	-	-	173	192
Interest on long-term debt	581	470	-	-	581	470
Water and sewer	-	-	2,401	2,247	2,401	2,247
Total expenses	9,838	9,999	2,401	2,247	12,239	12,246
Changes in net assets	\$ 1,416	\$ 27	\$ 201	\$ 286	\$ 1,617	\$ 313
Net assets, beginning of year	\$15,909	\$15,882	\$8,401	\$8,115	\$24,310	\$23,997
Net assets, end of year	\$17,325	\$15,909	\$8,602	\$8,401	\$25,927	\$24,310

Governmental Activities

Revenues for the City's governmental activities increased \$1,226,407 while expenses decreased \$161,169. The big increase in revenues is due to donations received for the Municipal Complex, Bike Trail, Phase II and Streetscape projects totaling \$840,921. Interest earnings are up \$196,451 due to increased interest rates and earnings on bond proceeds.

Property taxes increased \$313,769. State Shared revenues decreased by \$7,410.

Decreases in expenses were in Public Works due to the Streetscape project being completed last year. Last year both the Municipal Complex and the Streetscape were under construction. This year only the Municipal Complex was under construction.

Business-type Activities

Revenues for the business-type activities increased by \$68,785.

Expenses increased in the business-type activities by \$153,725. Wholesale water and sewer charges from the City of Grand Rapids increased over the previous year due to rate increases.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At the end of fiscal year 2006 the governmental funds reported a *combined* fund balance of \$4,403,204 which is \$9,403,691 less than last year. The large decrease is due to bond proceeds for the Municipal Complex project and the Streetscape project received at the end of last fiscal year. These funds were spent during the last year on these projects. The General Fund fund balance decreased by \$206,554. The undesignated portion of the General Fund fund balance actually increased by \$39,506. The decrease in total fund balance is due to the elimination of designated fund balances for the Municipal Complex project in the amount of \$192,128. These funds were applied to the construction project. The General Fund Undesignated Fund Balance at June 30, 2006 is \$2,070,453 which is 25.64% of 2005-2006 expenditures. Available fund balance will be used to cover a budget deficit in 2006-2007. The Major Street Fund fund balance decreased by \$95,669 for construction projects. The Local Street Fund fund balance increased \$339,455 due to funds received for the Bike Trail Phase II and construction projects to be completed in the next year.

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$43,116 below final budget amounts. Expenditures that exceeded budgeted amounts included Attorney Fees for ongoing litigation, City Buildings for increases in gas and electric charges due to rate increases and construction costs and Public Safety overtime due to staffing shortages. Expenditures that were below budgeted amounts included Finance and Administration, Public Works and Recreation activities.

Revenues were \$349,630 more than the amended budget. The most significant increases in revenues from the original budget were in interest earnings, cable tower rental, right of way fees and State Shared revenues. During the budget process State Shared revenues were decreased by \$50,000 in anticipation of continued cuts by the State of Michigan. Actual cuts by the State were less than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006 the City had \$32,005,903 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. This amount includes a net increase (including additions and deductions) of \$9,699,348 or 43.5% over last year. The increase is due to Construction in Progress on the Municipal Complex and the Wealthy Streetscape. Additional information on capital assets can be found in note 4 on page 34 of the notes to the financial statements.

Long-term Debt

At June 30, 2006 the City had \$14,144,588 in long-term debt outstanding. This is a decrease of \$318,797 from last year. Outstanding debt includes \$1,615,000 for Wealthy Pool Unlimited Tax General Obligation Bonds, \$8,680,000 for the Municipal Complex, \$2,955,000 for the Wealthy Streetscape and \$894,588 in Drain Bonds for business-type activities.

The State of Michigan has statutory and constitutional debt provisions that allow for debt limits of 10 percent of the City's assessed value. This means that the City could have debt outstanding of \$62.5 million. The City is well below statutory and constitutional debt limits with outstanding debt of \$14.1 million. Additional information on long-term debt can be found in note 7 on page 38 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The budget for next year includes a lower millage rate than was levied for the year ending June 30, 2006. In fiscal year end June 30, 2006 the millage rate levied was 13.7942 and in fiscal year ending June 30, 2007 the millage rate levied is 13.6162. These rollbacks are due to the City being in a Headlee rollback situation.

Another factor influencing property tax revenues is Proposal A. The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow less than inflation. In addition, the City of East Grand Rapids is a land-locked community so there are seldom new additions adding value to the tax roll other than remodeling or renovation of properties.

A developer has purchased a large portion of the City's downtown Gaslight Village property and has begun a \$50,000,000 dollar renovation and improvement that includes both commercial and residential properties. It is anticipated that this project will be completed over the next five to seven years. In connection with this redevelopment the City has completed a Streetscape project of Wealthy Street which is the main street of the Gaslight Village district. This project was financed by the \$3,140,000 Michigan Transportation Fund Bonds.

The City has completed the renovation of the Municipal Complex including City Hall and the Library with the proceeds of the \$8,740,000 general obligation bonds. The project was financed by the bond issue and over \$1 million in private donations.

The City is self funded for Health Care benefits. Health Care costs had been increasing 15% to 30% each of the past five years. At the end of the year ended June 30, 2004, the Health Care Fund had a fund balance of only \$8,882. Beginning January 1, 2005 the City implemented a Consumer Directed Health Plan for all employees. This plan has a significantly higher deductible for each employee and larger co-pays for out-of-network services. During 2004, co-pays on prescription benefits were increased. These changes were made in an effort to control increasing costs of health care benefits. At the end of fiscal year ended June 30, 2006, the first complete fiscal year for the Consumer Directed Health Plan, total health care costs were \$219,662 less than last fiscal year. The Health Care Fund fund balance increased by \$435,496 in the fiscal year ended June 30, 2006 for a total fund balance of \$608,007. In two years the City will be required to implement GASB 43, which requires the reporting of retiree health care benefits as a liability on the City books. This increased fund balance will help to offset some of that liability.

The City has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant, increasing some user fees, issuing debt for capital projects and making changes to employee benefits.

The General Fund budget for next year is \$469,820 more than last fiscal year. Budgeted expenditures exceed budgeted revenues by \$342,000. The excess will be funded from available fund balance. The City ended the fiscal year June 30, 2006 with an undesignated fund balance of over 25 percent of budgeted operating expenditures. The General Fund budget also includes a transfer to the Street Funds in the amount of \$640,000 for street construction. This is the dollar amount of the one and one-third mills that the City Commission chooses to dedicate annually to road projects. \$280,000 of the \$640,000 will be used to pay the debt service of the Michigan Transportation Fund bonds. Currently the City's general fund revenues are sufficient to meet operating expenditures.

As for the City's business-type activities, the budget for next year holds water rates constant. The sewer rates were increased 3% over last fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office at 750 Lakeside Drive, SE, Grand Rapids, MI 49506.

CITY OF EAST GRAND RAPIDS

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,057,978	\$ 409,045	\$ 3,467,023
Investments	4,976,562	1,258,889	6,235,451
Accounts receivable	617,137	377,464	994,601
Special assessment receivable	55,458	-	55,458
Inventory	63,853	52,194	116,047
Prepaid items and other assets	51,661	-	51,661
Debt issuance costs, net	193,239	-	193,239
Capital assets:			
Nondepreciable	14,847,248	1,491	14,848,739
Depreciable, net	9,422,821	7,042,388	16,465,209
Drainage facility rights, net	-	691,955	691,955
Total assets	33,285,957	9,833,426	43,119,383
Liabilities			
Accounts payable	2,178,570	296,909	2,475,479
Accrued liabilities	308,160	39,495	347,655
Unearned revenue	16,010	-	16,010
Long-term liabilities:			
Due within one year	240,000	84,448	324,448
Due in more than one year	13,218,651	810,140	14,028,791
Total liabilities	15,961,391	1,230,992	17,192,383
Net assets			
Invested in capital assets, net of related debt	11,033,557	6,149,291	17,182,848
Restricted for:			
Major Streets	820,936	-	820,936
Local Streets	748,809	-	748,809
Capital projects	599,612	-	599,612
Unrestricted	4,121,652	2,453,143	6,574,795
Total net assets	\$ 17,324,566	\$ 8,602,434	\$ 25,927,000

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Activities

For the Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities					
General government	\$ 1,729,820	\$ 10,307	\$ -	\$ 569,861	\$ (1,149,652)
Public safety	3,706,178	196,305	34,123	-	(3,475,750)
Public works	2,341,573	219,423	746,858	207,400	(1,167,892)
Recreation and culture	1,307,364	725,919	-	63,660	(517,785)
Other governmental functions	172,658	-	-	-	(172,658)
Interest on long-term debt	581,076	-	-	-	(581,076)
Total governmental activities	9,838,669	1,151,954	780,981	840,921	(7,064,813)
Business-type activities					
Water and Sewer	2,401,156	2,574,404	-	-	173,248
Total	<u>\$ 12,239,825</u>	<u>\$ 3,726,358</u>	<u>\$ 780,981</u>	<u>\$ 840,921</u>	<u>(6,891,565)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Activities (Concluded)

For the Year Ended June 30, 2006

	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (7,064,813)	\$ 173,248	\$ (6,891,565)
General revenues:			
Property taxes	6,785,145	-	6,785,145
State shared revenues	968,855	-	968,855
Cable franchise fees	119,488	-	119,488
Rental income	95,481	-	95,481
Unrestricted interest earnings	438,265	56,953	495,218
Other	37,837	6,343	44,180
Transfers - internal activities	35,000	(35,000)	-
Total general revenues and transfers	8,480,071	28,296	8,508,367
Change in net assets	1,415,258	201,544	1,616,802
Net assets, beginning of year, as restated	15,909,308	8,400,890	24,310,198
Net assets, end of year	<u>\$ 17,324,566</u>	<u>\$ 8,602,434</u>	<u>\$ 25,927,000</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Balance Sheet Governmental Funds

June 30, 2006

	General Fund	Major Streets	Municipal Complex	Streetscape	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 184,042	\$ 436,313	\$ 770,359	\$ 75,137	\$ 619,072	\$ 2,084,923
Investments	2,190,368	324,189	1,097,677	95,297	216,409	3,923,940
Accounts receivable	106,266	-	-	86,970	-	193,236
Special assessments receivable	-	-	-	-	55,458	55,458
Prepaid expenditures	43,354	-	-	-	-	43,354
Due from other governmental units	313,714	79,855	-	-	30,332	423,901
Total assets	\$ 2,837,744	\$ 840,357	\$ 1,868,036	\$ 257,404	\$ 921,271	\$ 6,724,812
Liabilities						
Accounts payable	\$ 425,485	\$ 13,327	\$ 1,444,420	\$ 152,562	\$ 64,005	\$ 2,099,799
Accrued liabilities	138,153	6,094	-	-	6,094	150,341
Deferred revenue	16,010	-	-	-	55,458	71,468
Total liabilities	579,648	19,421	1,444,420	152,562	125,557	2,321,608
Fund balances						
Reserved for:						
Bike trail phase II	-	-	-	-	148,138	148,138
Prepaid expenditures	43,354	-	-	-	-	43,354
Unreserved:						
Designated for public safety - drug seizures	144,289	-	-	-	-	144,289
Undesignated, reported in:						
General fund	2,070,453	-	-	-	-	2,070,453
Special revenue funds	-	820,936	-	-	600,671	1,421,607
Debt service funds	-	-	-	-	31,209	31,209
Capital project funds	-	-	423,616	104,842	15,696	544,154
Total fund balances	2,258,096	820,936	423,616	104,842	795,714	4,403,204
Total liabilities and fund balances	\$ 2,837,744	\$ 840,357	\$ 1,868,036	\$ 257,404	\$ 921,271	\$ 6,724,812

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

Fund balances - total governmental funds	\$ 4,403,204
--	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - nondepreciable capital assets	14,847,248
Add - depreciable capital assets, net	9,422,821

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred revenue on special assessments receivable	55,458
--	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of internal service funds are included in governmental activities.

Add - net assets of governmental activities accounted for in internal service funds	3,283,475
Deduct - Capital assets, net accounted for in internal service funds	(1,276,402)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements.

Deduct - bonds payable	(13,236,512)
Add - bond issuance costs	193,239
Deduct - compensated absences	(222,139)
Deduct - accrued interest on long-term liabilities	(145,826)

Net assets of governmental activities	<u><u>\$ 17,324,566</u></u>
---------------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2006

	General Fund	Major Streets	Municipal Complex	Streetscape	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 6,327,195	\$ -	\$ -	\$ -	\$ 457,950	\$ 6,785,145
Licenses and permits	177,017	-	-	-	-	177,017
Intergovernmental revenue:						
State	1,002,978	501,231	-	-	206,299	1,710,508
Local	-	-	569,861	207,400	63,660	840,921
Charges for services	1,030,617	-	-	-	-	1,030,617
Fines and penalties	63,809	-	-	-	-	63,809
Special assessments	-	-	-	-	6,119	6,119
Interest and rentals	298,938	25,161	194,304	32,071	22,600	573,074
Miscellaneous	34,976	-	-	-	2,861	37,837
Total revenues	8,935,530	526,392	764,165	239,471	759,489	11,225,047
Expenditures						
Current:						
Legislative	19,304	-	-	-	-	19,304
General government	1,742,226	-	-	-	-	1,742,226
Public safety	3,824,583	-	-	-	-	3,824,583
Public works	1,004,887	560,061	-	-	664,082	2,229,030
Culture and recreation	1,164,395	-	-	-	-	1,164,395
Other governmental functions	168,815	-	-	-	-	168,815
Debt service:						
Principal	-	-	-	-	250,000	250,000
Interest	-	-	-	-	572,648	572,648
Capital outlay	150,474	-	7,898,210	2,644,053	-	10,692,737
Total expenditures	8,074,684	560,061	7,898,210	2,644,053	1,486,730	20,663,738
Revenues over (under) expenditures	860,846	(33,669)	(7,134,045)	(2,404,582)	(727,241)	(9,438,691)
Other financing sources (uses)						
Transfers in	-	220,000	225,400	-	1,000,971	1,446,371
Transfers out	(1,067,400)	(282,000)	-	-	(61,971)	(1,411,371)
Total other financing sources (uses)	(1,067,400)	(62,000)	225,400	-	939,000	35,000
Net changes in fund balances	(206,554)	(95,669)	(6,908,645)	(2,404,582)	211,759	(9,403,691)
Fund balances, beginning of year, as restated	2,464,650	916,605	7,332,261	2,509,424	583,955	13,806,895
Fund balances, end of year	\$ 2,258,096	\$ 820,936	\$ 423,616	\$ 104,842	\$ 795,714	\$ 4,403,204

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2006

Net changes in fund balances - total governmental funds \$ (9,403,691)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capitalized assets	10,839,375
Deduct - depreciation expense	(668,724)
Deduct - net book value of disposed capital assets	(5,689)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - increase in special assessment deferred revenue	(6,120)
--	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	250,000
Deduct - amortization of bond discount	(900)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct - increase in accrued interest on bonds	(7,528)
Add - decrease in the accrual for compensated absences	24,842
Deduct - amortization of bond issuance costs	(7,917)

Internal service funds are used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income from governmental activities in internal service funds	401,610
---	---------

Change in net assets of governmental activities	<u>\$ 1,415,258</u>
---	---------------------

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual General Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Taxes	\$ 6,332,000	\$ 6,332,000	\$ 6,327,195	\$ (4,805)
Licenses and permits	164,000	164,000	177,017	13,017
State revenues	938,600	938,600	1,002,978	64,378
Charges for services	939,600	939,600	1,030,617	91,017
Fines and penalties	51,000	51,000	63,809	12,809
Interest and rentals	144,300	144,300	298,938	154,638
Miscellaneous	16,400	16,400	34,976	18,576
Total revenues	8,585,900	8,585,900	8,935,530	349,630
Expenditures				
Current:				
Legislative	25,100	25,100	19,304	(5,796)
General government	1,704,600	1,704,600	1,742,226	37,626
Public safety	3,756,100	3,756,100	3,824,583	68,483
Public works	1,041,900	1,041,900	1,004,887	(37,013)
Culture and recreation	1,171,200	1,211,100	1,164,395	(46,705)
Other governmental functions	210,000	210,000	168,815	(41,185)
Capital outlay	158,800	169,000	150,474	(18,526)
Total expenditures	8,067,700	8,117,800	8,074,684	(43,116)
Revenues over (under) expenditures	518,200	468,100	860,846	392,746
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	(877,000)	(1,067,400)	(1,067,400)	-
Total other financing sources (uses)	(877,000)	(1,067,400)	(1,067,400)	-
Net change in fund balance	(358,800)	(599,300)	(206,554)	392,746
Fund balance, beginning of year, as restated	2,464,650	2,464,650	2,464,650	-
Fund balance, end of year	<u>\$ 2,105,850</u>	<u>\$ 1,865,350</u>	<u>\$ 2,258,096</u>	<u>\$ 392,746</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Major Streets Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Intergovernmental revenues:				
State	\$ 500,000	\$ 500,000	\$ 501,231	\$ 1,231
Federal	300,000	300,000	-	(300,000)
Interest and rentals	5,000	5,000	25,161	20,161
Total revenues	805,000	805,000	526,392	(278,608)
Expenditures				
Street maintenance	354,400	354,400	268,431	(85,969)
Street construction	913,000	913,000	120,303	(792,697)
Street administration	201,000	201,000	171,327	(29,673)
Total expenditures	1,468,400	1,468,400	560,061	(908,339)
Revenues over (under) expenditures	(663,400)	(663,400)	(33,669)	629,731
Other financing sources (uses)				
Transfers in	220,000	220,000	220,000	-
Net change in fund balance	(723,400)	(723,400)	(95,669)	627,731
Fund balance, beginning of year	916,605	916,605	916,605	-
Fund balance, end of year	<u>\$ 193,205</u>	<u>\$ 193,205</u>	<u>\$ 820,936</u>	<u>\$ 627,731</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Net Assets Proprietary Funds

June 30, 2006

	Business-Type Activities	Governmental Activities
	Water/ Sewer Enterprise Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 409,045	\$ 973,055
Investments	1,258,889	1,052,622
Accounts receivable	377,464	-
Inventory	52,194	63,853
Prepaid expenses	-	8,307
	<hr/>	<hr/>
Total current assets	2,097,592	2,097,837
	<hr/>	<hr/>
Noncurrent assets:		
Capital assets not being depreciated	1,491	-
Capital assets being depreciated, net	7,042,388	1,276,402
Drainage facility rights, net	691,955	-
	<hr/>	<hr/>
Total noncurrent assets	7,735,834	1,276,402
	<hr/>	<hr/>
Total assets	9,833,426	3,374,239
	<hr/>	<hr/>
Liabilities		
Current liabilities:		
Accounts payable	296,909	78,771
Accrued liabilities	39,495	11,993
Current maturity of bonds payable	84,448	-
	<hr/>	<hr/>
Total current liabilities	420,852	90,764
	<hr/>	<hr/>
Noncurrent liabilities:		
Bonds payable, net of current maturities	810,140	-
	<hr/>	<hr/>
Total liabilities	1,230,992	90,764
	<hr/>	<hr/>
Net assets		
Invested in capital assets, net of related debt	6,841,246	1,276,402
Unrestricted	1,761,188	2,007,073
	<hr/>	<hr/>
Total net assets	\$ 8,602,434	\$ 3,283,475
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds

For the Year Ended June 30, 2006

	Business-Type Activities	Governmental Activities
	Water/ Sewer Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	\$ 2,574,404	\$ 1,652,103
Miscellaneous	6,343	100,992
Total operating revenues	<u>2,580,747</u>	<u>1,753,095</u>
Operating expenses		
Personnel services	355,795	174,980
Contractual services	526,438	8,850
Materials and supplies	112,523	463,712
Automobile	66,483	1,418
Water purchases	816,436	-
Claims	-	425,738
Administration	91,000	36,200
Depreciation and amortization	367,500	240,587
Miscellaneous	35,191	-
Total operating expenses	<u>2,371,366</u>	<u>1,351,485</u>
Operating income	<u>209,381</u>	<u>401,610</u>
Non operating revenues (expenses)		
Interest income	56,953	-
Interest expense	(29,790)	-
Total non operating revenues (expenses)	<u>27,163</u>	<u>-</u>
Net income before transfers	236,544	401,610
Transfers out	<u>(35,000)</u>	<u>-</u>
Change in net assets	201,544	401,610
Net assets, beginning of year, as restated	<u>8,400,890</u>	<u>2,881,865</u>
Net assets, end of year	<u><u>\$ 8,602,434</u></u>	<u><u>\$ 3,283,475</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2006

	Business-Type Activities	Governmental Activities
	Water/ Sewer Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Receipts from interfund services provided	\$ -	\$ 1,664,081
Receipts from customers and users	2,576,131	89,014
Payments to suppliers	(1,716,278)	(514,987)
Payments to employees	(358,820)	(618,564)
	<hr/>	<hr/>
Net cash provided by operating activities	501,033	619,544
	<hr/>	<hr/>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(9,512)	(132,961)
Principal paid on bonds	(83,185)	-
Interest and fiscal charges paid	(30,258)	-
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(122,955)	(132,961)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of investments	(954,616)	(515,605)
Interest earned on investments	56,953	-
	<hr/>	<hr/>
Net cash used in investing activities	(897,663)	(515,605)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(554,585)	(29,022)
Cash and cash equivalents, beginning of year	963,630	1,002,077
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 409,045</u>	<u>\$ 973,055</u>

(Continued)

CITY OF EAST GRAND RAPIDS

Statement of Cash Flows (Concluded) Proprietary Funds

For the Year Ended June 30, 2006

	Business-Type Activities	Governmental Activities
	Water/ Sewer Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Operating income	\$ 209,381	\$ 401,610
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	367,500	240,587
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(4,166)	-
Inventory	(10,881)	2,262
Accounts payable	(57,326)	(25,283)
Accrued liabilities	(3,475)	368
Net cash provided by operating activities	\$ 501,033	\$ 619,544

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Fiduciary Funds Statement of Fiduciary Assets and Liabilities

June 30, 2006

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 10,001
Delinquent taxes receivable	<u>21,985</u>
Total assets	<u><u>\$ 31,986</u></u>
Liabilities	
Due to other governmental units	<u><u>\$ 31,986</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Grand Rapids conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. The City has no discretely presented component units.

Blended Component Unit – City of East Grand Rapids Building Authority

The Building Authority is governed by a board appointed by the City Commission. For financial reporting purposes, the building authority is reported as if it were a part of the City's operations because its sole purpose is to finance and construct the City's public buildings. The Building Authority had no activity during the current year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

The *Major Streets Fund* is used to account for the receipt and expenditure of gas and weight taxes, distributed by the State of Michigan, that are restricted for use on major streets by Act 51.

The *Municipal Complex Capital Projects Fund* is used to account for costs associated with the construction of the municipal complex and the related bond issue proceeds.

The *Streetscape Capital Projects Fund* is used to account for costs associated with several streetscape projects within the City and the related bond issue proceeds.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

The City reports the following major proprietary fund:

The *Water and Sewer Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Fund* is used to account for the accumulation and disbursement of funds for capital projects.

The *Internal Service Funds* account for equipment and vehicle purchases, repairs and maintenance provided to the City departments on a cost reimbursement basis and the accumulation of resources and costs related to the City's self-insurance program.

The *Agency Fund* is used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of June the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2006. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

Budgets for expenditures are adopted on a fund total basis in both the General Fund and in the Special Revenue funds. Thus, expenditures may not legally exceed the budgeted amounts by fund for the General and Special Revenue funds.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Drainage District Facility Rights

The City is a participant in the Silver Creek Drainage District, an intra-county drain in Kent County owned and operated by the Kent County Drain Commission. Each member municipality has pledged its full faith and credit in repayment of their allocated shares of long-term debt of the system.

The City accounts for the group of transactions substantially in accordance with APB 17, Intangible Assets. The contract payable to the Kent County Drain Commission is presented as long-term debt. The City's investment in the intangible asset is presented as drainage facility rights.

The investment in drainage facility rights is amortized over the life of the debt issue. Accumulated amortization amounted to \$808,709 at June 30, 2006. Current year amortization expense amounted to \$76,883 for the year ended June 30, 2006.

Due to/from Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water and sewage systems	20-50
Buildings and improvements	10-35
Vehicles and equipment	4-20
Infrastructure	5-20

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

General Fund – fees received in advance	\$ 16,010
Special assessment fund – special assessments	<u>55,458</u>
	<u>\$ 71,468</u>

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as general government expenditures.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation benefits. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave.

Vacation time is credited to each employees account monthly. Employees that are allowed to carryover up to a maximum of two years worth of earned vacation. Unused vacation days are paid to employees upon termination under limits that vary by employee group. Employees accumulate sick leave at the rate of one day per month of employment. Unused sick leave, under limits that vary by employee group, is payable to employees (or their beneficiaries) with ten or more years of continuous service at the rate of \$1.00 per day, times the years of continuous service upon retirement or death. The vesting method is used to determine the amount of sick leave accrued.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year-end while the proprietary funds report the liability as it is incurred.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Investments

State statutes authorize the City to invest in the following:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$3,057,978	\$ 409,045	\$10,001	\$3,477,024
Investments	4,976,562	1,258,889	-	6,235,451
	\$8,034,540	\$1,667,934	\$10,001	\$9,712,475

The cash and investments above are disclosed in the notes as follows:

Deposits	\$6,101,396
Investments	3,611,079
	\$9,712,475

These deposits are in four (4) financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value.

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

Investments

	Maturity	Fair Value	Rating
General Electric Capital Corporation Commercial Paper	9/11/06	\$ 520,346	S&P A-1+
Dreyfus Government Cash Management Fund	N/A	1,192,974	Unrated
Kent County Investment Pool	N/A	1,897,759	Unrated

The above investments do not include certificates of deposit which are classified as investments for financial statement purposes as their original maturity date is greater than three months.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$5,732,760 of the City's bank balance of \$6,132,760 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the \$3,611,079 in investments, the City has a custodial credit risk exposure of \$3,611,079 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above mutual fund investments, the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. Concentrations of investments are noted above.

3. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2006 are as follows:

	Transfers In				Total
	Municipal Complex Capital Projects	Major Streets Fund	Local Streets Fund	Streetscape Debt Service	
Transfers out					
General fund	\$ 190,400	\$ 220,000	\$ 657,000	\$ -	\$1,067,400
Major streets	-	-	-	282,000	282,000
Special assessments	-	-	61,971	-	61,971
Water/sewer	35,000	-	-	-	35,000
	<u>\$ 225,400</u>	<u>\$ 220,000</u>	<u>\$ 718,971</u>	<u>\$ 282,000</u>	<u>\$1,446,371</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,124,000	\$ -	\$ -	\$ 2,124,000
Construction in progress	2,061,629	10,661,619	-	12,723,248
Total capital assets, not being depreciated	4,185,629	10,661,619	-	14,847,248
Capital assets, being depreciated:				
Land improvements	673,435	-	-	673,435
Buildings	843,629	-	-	843,629
Building improvements	3,854,256	11,350	-	3,865,606
Vehicles and equipment	3,170,285	180,474	160,258	3,190,501
Infrastructure	8,559,269	118,895	-	8,678,164
Total capital assets, being depreciated	17,100,874	310,719	160,258	17,251,335
Less accumulated depreciation for:				
Land improvements	101,016	33,672	-	134,688
Buildings	828,590	2,815	-	831,405
Building improvements	1,115,762	182,075	-	1,297,837
Vehicles and equipment	1,672,442	270,818	154,569	1,788,691
Infrastructure	3,355,962	419,931	-	3,775,893
Total accumulated depreciation	7,073,772	909,311	154,569	7,828,514
Net capital assets, being depreciated	10,027,102	(598,592)	(5,689)	9,422,821
Governmental activities capital assets, net	\$ 14,212,731	\$ 10,063,027	\$ (5,689)	\$ 24,270,069

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Business-type activities				
Capital assets, not being depreciated:				
Construction in progress	\$ 152,749	\$ 1,331	\$ 152,589	\$ 1,491
Capital assets, being depreciated:				
Sewer system	7,641,644	160,770	-	7,802,414
Water system	4,615,944	-	-	4,615,944
Lift stations	390,983	-	-	390,983
Water tower	303,228	-	-	303,228
Meters	350,271	-	-	350,271
Total capital assets, being depreciated	13,302,070	160,770	-	13,462,840
Less accumulated depreciation for:				
Sewer system	3,916,735	154,362	-	4,071,097
Water system	1,766,753	94,790	-	1,861,543
Lift stations	136,339	17,589	-	153,928
Water tower	178,656	6,362	-	185,018
Meters	131,352	17,514	-	148,866
Total accumulated depreciation	6,129,835	290,617	-	6,420,452
Net capital assets, being depreciated	7,172,235	(129,847)	-	7,042,388
Business-type activities capital assets, net	<u>\$7,324,984</u>	<u>\$(128,516)</u>	<u>\$152,589</u>	<u>\$7,043,879</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 31,430
Public safety	78,909
Public works	442,027
Recreation and culture	116,358
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>240,587</u>
Total depreciation expense – governmental activities	<u>\$ 909,311</u>

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

5. PENSION PLANS

Defined Benefit Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year ranged from 18.37 to 27.74 percent. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2006, the City's annual pension cost of \$267,042 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial entry into the plan using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$127,719	100%	\$ -
2005	191,707	100%	-
2006	267,042	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	\$13,408,406	\$16,882,351	\$3,473,945	79%	\$795,299	437%
12/31/04	13,160,299	17,410,086	4,249,787	76%	718,375	592%
12/31/05	12,782,053	17,853,808	4,801,755	73%	700,216	686%

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Defined Contribution Pension Plans

The City also maintains three defined contribution retirement plans offered by MERS and administered by ICMA Retirement Corporation (ICMA). The City Services Defined Contribution Plan covers all City service employees hired on or after July 7, 1999 and all City services employees hired prior to July 7, 1999 who elected to convert from the defined benefit plan on July 7, 1999. The Non-Union Defined Contribution Plan covers all non-union employees hired on or after July 1, 1999 and all non-union employees hired prior to July 1, 1999 who elected to convert from the defined benefit plan on July 1, 1999. The Public Safety Defined Contribution Plan covers all public safety officers, lieutenants and sergeants hired on or after January 1, 2002 and all officers, lieutenants and sergeants hired prior to January 1, 2002 who elected to convert to the defined contribution plan on January 1, 2002.

City Services Defined Contribution Plan

The City Services Plan requires participants and the City to each contribute 4% of the participants' salaries to the plan. The City's contribution for fiscal year 2006 was \$24,430 and the employees' contribution was also \$24,430.

Non-Union Defined Contribution Plan

The Non-Union Plan gives participants the option to contribute up to 1% of their salary to the plan. The City is required to contribute 14% of the participants' salary and match the employees' optional contribution. The City's contribution for fiscal year 2006 was \$212,324 and the employees' contribution was \$14,169.

Public Safety Defined Contribution Plan

The Public Safety Plan requires participants to contribute 3.81% of their salary to the plan. The City is required to contribute 15% of the participants' salary. The City's contribution for fiscal year 2006 was \$216,005 and the employees' contribution was \$54,669.

6. OTHER POST EMPLOYMENT BENEFITS

In addition to pension benefits, the City extends medical insurance coverage to retirees. The employer-paid benefit is provided upon the employee attaining 55 years of age, with 25 years of service to the City. Upon that attainment, the employee and eligible dependents, as applicable, are provided with medical insurance equivalent to that provided to existing employees in their classification until they are eligible for federal Medicare coverage. The City has 19 individuals/family groups who are receiving benefits. The benefits are financed with contributions by various City funds to the Health Insurance Fund, based on retirees' claims and a provision for estimated claims incurred but not yet reported to the City. Current year expenses for covered individuals were \$78,434.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<i>Governmental activities</i>					
\$1,775,000 Unlimited Tax General Obligation Bonds, Series 2002, due in annual installments of \$55,000 to \$165,000 through April 2022; interest at 3.50% to 4.90%	\$ 1,665,000	\$ -	\$(50,000)	\$ 1,615,000	\$ 55,000
\$8,740,000 Unlimited Tax General Obligation Bonds, Series 2004, due in annual installments of \$15,000 to \$550,000 through April 2034; interest at 3.00% to 4.875%	8,695,000	-	(15,000)	8,680,000	15,000
\$3,140,000 2005 Michigan Transportation Fund Bonds, due in annual installments of \$170,000 to \$265,000 through April 2020; interest at 3.00% to 4.25%	3,140,000	-	(185,000)	2,955,000	170,000
Total installment debt	13,500,000	-	(250,000)	13,250,000	240,000
Long-term compensated absences	246,981	30,023	(24,842)	222,139	-
Less: unamortized discount	(14,388)	-	900	(13,488)	-
Total governmental activities	<u>\$ 13,732,593</u>	<u>\$ 30,023</u>	<u>\$(273,942)</u>	<u>\$ 13,458,651</u>	<u>\$240,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<i>Business-type activities</i>					
\$868,583 1995 Silver Creek Drain Bonds; due in annual installments of \$37,639 to \$39,569 through November 2006; Interest at 4.80% to 4.90%.	\$ 39,565	\$ -	\$ (39,565)	\$ -	\$ -
\$981,824 2003 Silver Creek Drain Refunding Bonds; due in annual installments of \$84,448 to \$107,648 through November 2015; interest at 2.25% to 4.25%.	938,208	-	(43,620)	894,588	84,448
Total business-type activities	<u>\$ 977,773</u>	<u>\$ -</u>	<u>\$ (83,185)</u>	<u>\$ 894,588</u>	<u>\$ 84,448</u>

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2006 are as follows:

Year June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 240,000	\$ 583,754	\$ 84,448	\$ 27,903
2008	245,000	576,279	87,232	25,862
2009	350,000	567,669	90,944	23,522
2010	365,000	555,729	92,800	20,879
2011	375,000	510,259	96,512	17,991
2012-2016	2,155,000	2,489,934	442,652	39,234
2017-2021	2,905,000	1,973,774	-	-
2022-2026	2,265,000	1,388,171	-	-
2027-2031	2,700,000	799,500	-	-
2032-2034	1,650,000	160,875	-	-
Total	\$13,250,000	\$ 9,605,943	\$ 894,588	\$ 155,391

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its risk by purchasing commercial insurance for liability and property insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City is self-insured for employees' health benefits and accounts for and finances its uninsured risks of loss in the Health Care Fund (an internal service fund). Under this program, the Health Care Fund provides specific coverage for up to a maximum of \$40,000 per covered individual and certain excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

All funds of the City participate in the program and make payments to the Health Care Fund based on experience estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The available net assets at June 30, 2006 are \$592,431 and are reported in the Health Insurance Fund. The claims liability of \$63,347 reported in the fund at June 30, 2006, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Fiscal Year Ended June 30	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2005	\$ 84,240	\$ 696,642	\$ (695,822)	\$ 85,061
2006	85,061	644,283	(665,997)	63,347

9. CONTINGENT LIABILITIES

The City is party to various legal proceedings and claims which normally occur in government operations. Although the outcome of the legal proceedings and claims is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

10. COMMITMENTS

At June 30, 2006, the City had various construction projects in progress and had remaining commitments outstanding of approximately \$2,500,000 in connection with those projects.

11. RESTATEMENT OF PRIOR YEAR

Fund balance of the general fund was increased by \$54,865 as of June 30, 2005 to reflect the removal of compensated absences payable from the fund financial statements. Net assets of the water/sewer enterprise funds were increased by \$36,365 as of June 30, 2005 to reflect the over accrual of expenditures in the prior period. The net assets of the health insurance internal service fund were increased by \$15,576 to reflect the transfer of cash from an account that was previously not included in the cash balance on the general ledger.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

12. STATE CONSTRUCTION CODE ACT

P.A. 245 of 1999, section 22(1) of the State Construction Code Act, requires fees generated by enforcing agencies or construction board of appeals bear a reasonable relationship to the actual cost of performing those services.

The fees generated by the City's enforcing agencies and the costs of providing those services were as follows for the year ended June 30, 2006:

Revenues

Building permits	\$ 32,139
Other permits	12,640

Total revenues

44,779

Expenditures

Salaries and wages	32,864
Payroll taxes and fringe benefits	24,405
Inspection services	16,693
Automobile expenses	3,883

Total expenditures

77,845

Deficiency of revenues under expenditures

\$(33,066)

* * * * *

CITY OF EAST GRAND RAPIDS

Detail Schedule of Revenues and Expenditures Budget and Actual General Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Taxes:				
Property taxes	\$ 6,300,000	\$ 6,300,000	\$ 6,303,118	\$ 3,118
Interest and penalties on property taxes	32,000	32,000	24,077	(7,923)
	<u>6,332,000</u>	<u>6,332,000</u>	<u>6,327,195</u>	<u>(4,805)</u>
Licenses and permits:				
Business licenses	4,000	4,000	12,750	8,750
Cable television franchise fees	105,000	105,000	119,488	14,488
Building permits	40,000	40,000	32,139	(7,861)
Other licenses and permits	15,000	15,000	12,640	(2,360)
	<u>164,000</u>	<u>164,000</u>	<u>177,017</u>	<u>13,017</u>
State revenues:				
State shared revenue	932,100	932,100	968,855	36,755
State grants	6,500	6,500	34,123	27,623
	<u>938,600</u>	<u>938,600</u>	<u>1,002,978</u>	<u>64,378</u>
Charges for services:				
Administrative charges	91,000	91,000	91,000	-
Recreation fees	704,400	704,400	715,253	10,853
Grounds maintenance fees	114,800	114,800	128,424	13,624
Clerk's services	6,000	6,000	6,025	25
Right of way fees	6,500	6,500	68,724	62,224
Other	16,900	16,900	21,191	4,291
	<u>939,600</u>	<u>939,600</u>	<u>1,030,617</u>	<u>91,017</u>
Fines and penalties	<u>51,000</u>	<u>51,000</u>	<u>63,809</u>	<u>12,809</u>
Interest and rentals:				
Interest	80,000	80,000	203,457	123,457
Cable tower rental	64,300	64,300	95,481	31,181
	<u>144,300</u>	<u>144,300</u>	<u>298,938</u>	<u>154,638</u>
Miscellaneous	<u>16,400</u>	<u>16,400</u>	<u>34,976</u>	<u>18,576</u>
Total revenues	<u>\$ 8,585,900</u>	<u>\$ 8,585,900</u>	<u>\$ 8,935,530</u>	<u>\$ 349,630</u>

(Continued)

CITY OF EAST GRAND RAPIDS

Detail Schedule of Revenues and Expenditures Budget and Actual (Continued) General Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Expenditures				
Current:				
Legislative:				
City Commission:				
Personnel services	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Contractual services	2,000	2,000	1,682	(318)
Miscellaneous	15,100	15,100	9,622	(5,478)
	<u>25,100</u>	<u>25,100</u>	<u>19,304</u>	<u>(5,796)</u>
General Government:				
City Manager:				
Personnel services	212,500	212,500	217,067	4,567
Contractual services	4,000	4,000	3,963	(37)
Operating supplies	2,000	2,000	1,208	(792)
Automobile expenses	200	200	111	(89)
Miscellaneous	8,800	8,800	7,558	(1,242)
	<u>227,500</u>	<u>227,500</u>	<u>229,907</u>	<u>2,407</u>
City Assessor:				
Personnel services	117,100	117,100	113,274	(3,826)
Operating supplies	4,000	4,000	3,964	(36)
Automobile expenses	400	400	84	(316)
Miscellaneous	2,000	2,000	1,823	(177)
	<u>123,500</u>	<u>123,500</u>	<u>119,145</u>	<u>(4,355)</u>
City Attorney:				
Professional services	180,000	180,000	190,607	10,607
Miscellaneous	5,000	5,000	31,829	26,829
	<u>185,000</u>	<u>185,000</u>	<u>222,436</u>	<u>37,436</u>
Elections:				
Personnel services	15,700	15,700	9,809	(5,891)
Contractual services	1,000	1,000	-	(1,000)
	<u>16,700</u>	<u>16,700</u>	<u>9,809</u>	<u>(6,891)</u>
Controller-Clerk-Treasurer:				
Personnel services	434,100	434,100	431,114	(2,986)
Contractual services	4,000	4,000	4,908	908
Professional services	13,500	13,500	13,500	-
Operating supplies	64,200	64,200	39,906	(24,294)
Repairs and maintenance	23,200	23,200	17,073	(6,127)
Automobile expenses	500	500	875	375
Miscellaneous	24,900	24,900	17,228	(7,672)
	<u>564,400</u>	<u>564,400</u>	<u>524,604</u>	<u>(39,796)</u>

(Continued)

CITY OF EAST GRAND RAPIDS

Detail Schedule of Revenues and Expenditures Budget and Actual (Continued) General Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Expenditures (continued)				
Current: (continued)				
General Government: (concluded)				
City buildings:				
Personnel services	\$ 221,000	\$ 221,000	\$ 183,790	\$ (37,210)
Contractual services	268,000	268,000	356,421	88,421
Operating supplies	36,000	36,000	28,590	(7,410)
Repairs and maintenance	42,000	42,000	50,462	8,462
Automobile expenses	10,000	10,000	13,037	3,037
Miscellaneous	10,500	10,500	4,025	(6,475)
	<u>587,500</u>	<u>587,500</u>	<u>636,325</u>	<u>48,825</u>
 Total general government	 <u>1,704,600</u>	 <u>1,704,600</u>	 <u>1,742,226</u>	 <u>37,626</u>
 Public safety:				
General activity:				
Personnel services	3,209,300	3,209,300	3,297,814	88,514
Contractual services	100,300	100,300	98,137	(2,163)
Operating supplies	93,200	93,200	117,173	23,973
Repairs and maintenance	9,000	9,000	5,372	(3,628)
Automobile expenses	175,000	175,000	172,012	(2,988)
Miscellaneous	28,600	28,600	31,348	2,748
	<u>3,615,400</u>	<u>3,615,400</u>	<u>3,721,856</u>	<u>106,456</u>
State programs:				
Training	6,700	6,700	5,470	(1,230)
 Drug seizure program:				
Operating supplies	19,100	19,100	16,797	(2,303)
Miscellaneous	11,000	11,000	2,345	(8,655)
	<u>30,100</u>	<u>30,100</u>	<u>19,142</u>	<u>(10,958)</u>
Inspection:				
Personnel services	90,900	90,900	57,269	(33,631)
Contractual services	5,000	5,000	16,963	11,963
Automobile expenses	8,000	8,000	3,883	(4,117)
	<u>103,900</u>	<u>103,900</u>	<u>78,115</u>	<u>(25,785)</u>
 Total public safety	 <u>3,756,100</u>	 <u>3,756,100</u>	 <u>3,824,583</u>	 <u>68,483</u>

(Continued)

CITY OF EAST GRAND RAPIDS

Detail Schedule of Revenues and Expenditures Budget and Actual (Continued) General Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Expenditures (continued)				
Current: (continued)				
Public works:				
Engineering:				
Personnel services	\$ 117,500	\$ 117,500	\$ 111,871	\$ (5,629)
Contractual services	5,000	5,000	9,073	4,073
Operating supplies	1,500	1,500	1,857	357
Automobile expenses	8,000	8,000	3,533	(4,467)
	<u>132,000</u>	<u>132,000</u>	<u>126,334</u>	<u>(5,666)</u>
Street lighting:				
Contractual services	69,000	69,000	71,488	2,488
Repairs and maintenance	5,000	5,000	6,153	1,153
	<u>74,000</u>	<u>74,000</u>	<u>77,641</u>	<u>3,641</u>
Waste collection:				
Personnel services	164,300	164,300	146,787	(17,513)
Contractual services	181,000	181,000	177,822	(3,178)
Operating supplies	800	800	280	(520)
Automobile expenses	85,000	85,000	77,272	(7,728)
	<u>431,100</u>	<u>431,100</u>	<u>402,161</u>	<u>(28,939)</u>
Lake restoration:				
Contractual services	60,000	60,000	65,003	5,003
Tree maintenance and removal:				
Personnel services	10,500	10,500	15,984	5,484
Contractual services	50,500	50,500	25,705	(24,795)
Repairs and maintenance	1,000	1,000	121	(879)
Automobile expenses	2,000	2,000	1,987	(13)
	<u>64,000</u>	<u>64,000</u>	<u>43,797</u>	<u>(20,203)</u>
Grounds maintenance:				
Personnel services	130,100	130,100	135,492	5,392
Contractual services	900	900	472	(428)
Operating supplies	18,700	18,700	16,376	(2,324)
Repairs and maintenance	83,500	83,500	78,920	(4,580)
Automobile expenses	47,000	47,000	58,175	11,175
Miscellaneous	600	600	516	(84)
	<u>280,800</u>	<u>280,800</u>	<u>289,951</u>	<u>9,151</u>
Total public works	<u>1,041,900</u>	<u>1,041,900</u>	<u>1,004,887</u>	<u>(37,013)</u>

(Continued)

CITY OF EAST GRAND RAPIDS

Detail Schedule of Revenues and Expenditures Budget and Actual (Concluded) General Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Expenditures (concluded)				
Current: (concluded)				
Culture and recreation:				
Personnel services	\$ 728,100	\$ 728,100	\$ 700,114	\$ (27,986)
Contractual services	116,500	116,500	114,532	(1,968)
Joint facilities agreement	154,500	154,500	148,313	(6,187)
Operating supplies	51,600	91,500	81,378	(10,122)
Repairs and maintenance	4,900	4,900	4,560	(340)
Automobile expenses	1,000	1,000	1,650	650
Miscellaneous	16,600	16,600	15,250	(1,350)
	<u>1,073,200</u>	<u>1,113,100</u>	<u>1,065,797</u>	<u>(47,303)</u>
Special events:				
Personnel services	5,500	5,500	4,452	(1,048)
Contractual services	31,100	31,100	29,483	(1,617)
Operating supplies	36,500	36,500	38,133	1,633
Miscellaneous	24,900	24,900	26,530	1,630
	<u>98,000</u>	<u>98,000</u>	<u>98,598</u>	<u>598</u>
 Total culture and recreation	 <u>1,171,200</u>	 <u>1,211,100</u>	 <u>1,164,395</u>	 <u>(46,705)</u>
 Other governmental functions:				
Personnel services	5,000	5,000	-	(5,000)
Contractual services	24,000	24,000	17,134	(6,866)
Insurance premiums	140,000	140,000	122,891	(17,109)
Miscellaneous	41,000	41,000	28,790	(12,210)
	<u>210,000</u>	<u>210,000</u>	<u>168,815</u>	<u>(41,185)</u>
 Capital outlay:				
City Manager	-	3,700	3,749	49
Controller-Clerk-Treasurer	-	6,500	6,430	(70)
City buildings	26,000	26,000	11,350	(14,650)
Public safety:				-
General activity	7,300	7,300	20,516	13,216
Drug seizure program	21,600	21,600	23,279	1,679
Public works - street lighting	11,400	11,400	-	(11,400)
Culture and recreation	77,500	77,500	76,304	(1,196)
Other governmental functions	15,000	15,000	8,846	(6,154)
	<u>158,800</u>	<u>169,000</u>	<u>150,474</u>	<u>(18,526)</u>
 Total expenditures	 <u>\$ 8,067,700</u>	 <u>\$ 8,117,800</u>	 <u>\$ 8,074,684</u>	 <u>\$ (43,116)</u>

(Concluded)

CITY OF EAST GRAND RAPIDS

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>		
	<u>Local Streets</u>	<u>Wealthy Pool</u>	<u>Municipal Complex</u>	<u>Streetscape</u>
Assets				
Cash and cash equivalents	\$ 572,167	\$ 9,357	\$ 21,742	\$ 110
Investments	216,409	-	-	-
Special assessments receivable	-	-	-	-
Due from other governmental units	30,332	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 818,908</u>	<u>\$ 9,357</u>	<u>\$ 21,742</u>	<u>\$ 110</u>
Liabilities				
Accounts payable	\$ 64,005	\$ -	\$ -	\$ -
Accrued liabilities	6,094	-	-	-
Deferred revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>70,099</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Reserved for:				
Bike trail phase II	148,138	-	-	
Unreserved:				
Undesignated	600,671	9,357	21,742	110
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>748,809</u>	<u>9,357</u>	<u>21,742</u>	<u>110</u>
Total liabilities and fund balances	<u>\$ 818,908</u>	<u>\$ 9,357</u>	<u>\$ 21,742</u>	<u>\$ 110</u>

Capital Projects	
Special Assessment	Total
\$ 15,696	\$ 619,072
-	216,409
55,458	55,458
-	30,332
<u>\$ 71,154</u>	<u>\$ 921,271</u>

\$ -	\$ 64,005
-	6,094
<u>55,458</u>	<u>55,458</u>
<u>55,458</u>	<u>125,557</u>

-	148,138
<u>15,696</u>	<u>647,576</u>
<u>15,696</u>	<u>795,714</u>
<u>\$ 71,154</u>	<u>\$ 921,271</u>

CITY OF EAST GRAND RAPIDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Special Revenue	Debt Service		
	Local Streets	Wealthy Pool	Municipal Complex	Streetscape
Revenues				
Property taxes	\$ -	\$ 77,619	\$ 380,331	\$ -
Intergovernmental:				
State	206,299	-	-	-
Local	63,660	-	-	-
Special assessments	-	-	-	-
Interest and rentals	14,167	2,563	5,514	356
Miscellaneous	440	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	284,566	80,182	385,845	356
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures				
Current:				
Public works	664,082	-	-	-
Debt service:				
Principal	-	50,000	15,000	185,000
Interest	-	75,638	399,764	97,246
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	664,082	125,638	414,764	282,246
	<hr/>	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(379,516)	(45,456)	(28,919)	(281,890)
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses)				
Transfers in	718,971	-	-	282,000
Transfers out	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	718,971	-	-	282,000
	<hr/>	<hr/>	<hr/>	<hr/>
Net changes in fund balances	339,455	(45,456)	(28,919)	110
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	409,354	54,813	50,661	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 748,809</u>	<u>\$ 9,357</u>	<u>\$ 21,742</u>	<u>\$ 110</u>

Capital Projects	
Special Assessment	Total
\$ -	\$ 457,950
-	206,299
-	63,660
6,119	6,119
-	22,600
2,421	2,861
8,540	759,489
-	664,082
-	250,000
-	572,648
-	1,486,730
8,540	(727,241)
-	1,000,971
(61,971)	(61,971)
(61,971)	939,000
(53,431)	211,759
69,127	583,955
\$ 15,696	\$ 795,714

CITY OF EAST GRAND RAPIDS

Schedule of Revenues, Expenditures and Change in Fund Balance Budget and Actual Local Streets Fund

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance from Amended Budget Over (Under)
Revenues				
Intergovernmental revenues:				
Federal	\$ -	\$ -	\$ -	\$ -
State	210,000	210,000	206,299	(3,701)
Local	-	-	63,660	63,660
Interest and rentals	2,000	2,000	14,167	12,167
Total revenues	212,000	212,000	284,566	72,566
Expenditures				
Street maintenance	380,800	455,800	345,498	(110,302)
Street construction	205,000	205,000	170,236	(34,764)
Street administration	179,400	179,400	148,348	(31,052)
Total expenditures	765,200	840,200	664,082	(176,118)
Revenues over (under) expenditures	(553,200)	(628,200)	(379,516)	248,684
Other financing sources				
Transfers in	657,000	732,000	718,971	(13,029)
Net change in fund balance	103,800	103,800	339,455	235,655
Fund balance, beginning of year	409,354	409,354	409,354	-
Fund balance, end of year	\$ 513,154	\$ 513,154	\$ 748,809	\$ 235,655

CITY OF EAST GRAND RAPIDS

Combining Statement of Net Assets Internal Service Funds

June 30, 2006

	Motor Pool	Health Insurance	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 298,201	\$ 674,854	\$ 973,055
Investments	1,052,622	-	1,052,622
Prepaid expenses	8,307	-	8,307
Inventory	63,853	-	63,853
Total current assets	1,422,983	674,854	2,097,837
Noncurrent assets:			
Capital assets being depreciated, net	1,276,402	-	1,276,402
Total assets	2,699,385	674,854	3,374,239
Liabilities			
Current liabilities:			
Accounts payable	11,924	66,847	78,771
Accrued liabilities	11,993	-	11,993
Total liabilities	23,917	66,847	90,764
Net assets			
Invested in capital assets	1,276,402	-	1,276,402
Unrestricted	1,399,066	608,007	2,007,073
Total net assets	\$ 2,675,468	\$ 608,007	\$ 3,283,475

CITY OF EAST GRAND RAPIDS

Combining Statement of Revenues, Expenses and Changes In Net Assets Internal Service Funds

For the Year Ended June 30, 2006

	Motor Pool	Health Insurance	Total
Revenues			
Charges for services	\$ 549,098	\$ 1,103,005	\$ 1,652,103
Miscellaneous	89,014	11,978	100,992
Total revenues	638,112	1,114,983	1,753,095
Expenses			
Personnel services	174,980	-	174,980
Claims	-	425,738	425,738
Contractual services	-	8,850	8,850
Operating	255,013	208,699	463,712
Automobile	1,418	-	1,418
Administration	-	36,200	36,200
Depreciation and amortization	240,587	-	240,587
Total expenses	671,998	679,487	1,351,485
Change in net assets	(33,886)	435,496	401,610
Net assets, beginning of year, as restated	2,709,354	172,511	2,881,865
Net assets, end of year	\$ 2,675,468	\$ 608,007	\$ 3,283,475

CITY OF EAST GRAND RAPIDS

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2006

	Motor Pool	Health Insurance	Total
Cash flows from operating activities			
Receipts from interfund services provided	\$ 549,098	\$ 1,114,983	\$ 1,664,081
Receipts from customers and users	89,014	-	89,014
Payments to suppliers	(261,238)	(253,749)	(514,987)
Payments to employees	(174,612)	(443,952)	(618,564)
Net cash provided by operating activities	202,262	417,282	619,544
Cash flows from capital and related financing activities			
Acquisition of capital assets	(132,961)	-	(132,961)
Cash flows from investing activities			
Purchase of investments	(515,605)	-	(515,605)
Net increase (decrease) in cash and Cash equivalents	(446,304)	417,282	(29,022)
Cash and cash equivalents, beginning of year	744,505	257,572	1,002,077
Cash and cash equivalents, end of year	<u>\$ 298,201</u>	<u>\$ 674,854</u>	<u>\$ 973,055</u>
Cash flows from operating activities			
Operating income (loss)	\$ (33,886)	\$ 435,496	\$ 401,610
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	240,587	-	240,587
Changes in operating assets and liabilities which provided (used) cash:			
Inventory	2,262	-	2,262
Accounts payable	(7,069)	(18,214)	(25,283)
Accrued liabilities	368	-	368
Net cash provided by operating activities	<u>\$ 202,262</u>	<u>\$ 417,282</u>	<u>\$ 619,544</u>

CITY OF EAST GRAND RAPIDS

Schedule of Indebtedness

June 30, 2006

Description		Date	Principal	Interest	Amount of Total Outstanding
General obligation debt					
Unlimited Tax General Obligation Bonds, Series 2002		04/01/2007	\$ 55,000	\$ 73,790	\$ 128,790
Amount of issue	\$ 1,775,000	04/01/2008	55,000	71,865	126,865
Interest rates	2.85- 4.9%	04/01/2009	60,000	69,830	129,830
Interest dates	10/1- 4/1	04/01/2010	70,000	67,490	137,490
Issue date	2/1/2002	04/01/2011	75,000	32,345	107,345
Final maturity date	4/1/2022	04/01/2012	80,000	61,615	141,615
		04/01/2013	85,000	58,295	143,295
		04/01/2014	90,000	54,598	144,598
		04/01/2015	100,000	50,593	150,593
		04/01/2016	105,000	46,043	151,043
		04/01/2017	115,000	41,160	156,160
		04/01/2018	125,000	35,525	160,525
		04/01/2019	135,000	29,400	164,400
		04/01/2020	145,000	22,785	167,785
		04/01/2021	155,000	15,680	170,680
		04/01/2022	165,000	8,085	173,085
			1,615,000	739,098	2,354,098
Unlimited Tax General Obligation Bonds, Series 2004		04/01/2007	15,000	399,089	414,089
Amount of issue	\$ 8,740,000	04/01/2008	15,000	398,639	413,639
Interest rates	3.0 - 4.875%	04/01/2009	110,000	398,189	508,189
Interest dates	10/1, 4/1	04/01/2010	110,000	394,889	504,889
Issue date	7/21/2004	04/01/2011	110,000	391,039	501,039
Final maturity date	4/1/2034	04/01/2012	110,000	387,189	497,189
		04/01/2013	110,000	383,339	493,339
		04/01/2014	120,000	379,214	499,214
		04/01/2015	130,000	374,654	504,654
		04/01/2016	170,000	369,584	539,584
		04/01/2017	185,000	362,784	547,784
		04/01/2018	220,000	355,291	575,291
		04/01/2019	240,000	346,161	586,161
		04/01/2020	275,000	336,081	611,081
		04/01/2021	310,000	324,256	634,256
		04/01/2022	340,000	310,616	650,616
		04/01/2023	380,000	295,486	675,486
		04/01/2024	415,000	278,196	693,196
		04/01/2025	460,000	259,106	719,106
		04/01/2026	505,000	236,681	741,681
		04/01/2027	530,000	212,063	742,063
		04/01/2028	535,000	186,225	721,225
		04/01/2029	540,000	160,144	700,144
		04/01/2030	545,000	133,819	678,819
		04/01/2031	550,000	107,250	657,250
		04/01/2032	550,000	80,438	630,438
		04/01/2033	550,000	53,625	603,625
		04/01/2034	550,000	26,813	576,813
			8,680,000	7,940,858	16,620,858

(Continued)

CITY OF EAST GRAND RAPIDS

Schedule of Indebtedness (Continued)

June 30, 2006

Description	Date	Principal	Interest	Amount of Total Outstanding
2005 Michigan Transportation Fund Bonds	04/01/2007	\$ 170,000	\$ 110,875	\$ 280,875
Amount of issue \$ 3,140,000	04/01/2008	175,000	105,775	280,775
Interest rates 3.0- 4.25%	04/01/2009	180,000	99,650	279,650
Interest dates 10/1, 4/1	04/01/2010	185,000	93,350	278,350
Issue date 5/31/2005	04/01/2011	190,000	86,875	276,875
Final maturity date 4/1/2020	04/01/2012	195,000	80,225	275,225
	04/01/2013	205,000	72,913	277,913
	04/01/2014	210,000	65,225	275,225
	04/01/2015	220,000	57,350	277,350
	04/01/2016	225,000	49,100	274,100
	04/01/2017	235,000	40,663	275,663
	04/01/2018	245,000	31,263	276,263
	04/01/2019	255,000	21,463	276,463
	04/01/2020	265,000	11,263	276,263
		2,955,000	925,988	3,880,988
Total general obligation debt		13,250,000	9,605,943	22,855,943
Enterprise funds				
2003 Silver Creek Drain Refunding Bonds	11/01/2007	84,448	27,903	112,351
Amount of issue \$ 981,824	11/01/2008	87,232	25,862	113,094
Interest rates 2 - 4.25%	11/01/2009	90,944	23,522	114,466
Interest dates 5/1- 11/1	11/01/2010	92,800	20,879	113,679
Issue date 9/30/2003	11/01/2011	96,512	17,991	114,503
Final maturity date 11/1/2015	11/01/2012	99,296	14,832	114,128
	11/01/2013	103,008	11,315	114,323
	11/01/2014	107,648	7,469	115,117
	11/01/2015	64,960	4,178	69,138
	11/01/2016	67,740	1,440	69,180
		894,588	155,391	1,049,979
Total enterprise funds		894,588	155,391	1,049,979
Total installment debt		\$ 14,144,588	\$ 9,761,333	\$ 23,905,921



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 1, 2006

Honorable Mayor and
Members of the City Council
City of East Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of East Grand Rapids, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Grand Rapids, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

September 1, 2006

Honorable Mayor and Members of
The City Council
City of East Grand Rapids, Michigan

In planning and performing our audit of the financial statements of City of East Grand Rapids for the year ended June 30, 2006, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the City's internal control in our report dated September 1, 2006, on the financial statements of the City of East Grand Rapids. This letter does not affect our report dated September 1, 2006 on the financial statements of City of East Grand Rapids.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations. Our comments are summarized as follows:

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the City's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal control systems carry with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Internal Controls – Cash Balances

When we initially began our audit, the City was still in the process of investigating an unreconciled difference in one of its cash accounts. While management was ultimately able to identify and resolve this issue without our assistance, this matter highlighted two conditions, which we have discussed with management, and wish to mention here. Firstly, we recommend that all transfers between cash accounts of the City be approved and recorded timely. Secondly, we recommend that all cash accounts bearing the City's name be recorded in the City's general ledger. We understand that management has already addressed both of these issues, and as such, this comment has been appropriately resolved.

We would like to thank the staff of the finance office for their assistance and cooperation during the audit. We look forward to working with you in the future.

This information is intended solely for the use of the Board Members and management of City of East Grand Rapids and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.